

## **Business Plans**

RD Instruction 4279-B, section 4279.161, requires a preliminary business plan from new businesses that submit preapplications and a more detailed business plan for all applications. The only guidance in the regulation regarding preparation of the business plan is under the application filing procedures. RD Instruction 4279-B, section 4279.161(b)(12), states: "Except for CLP lenders, applications will be filed with the Agency by submitting the following information: . . . a business plan, which includes, at a minimum, a description of the business and project, management experience, products and services, proposed use of funds, availability of labor, raw materials and supplies, and the names of any corporate parent, affiliates, and subsidiaries with a description of the relationship. Any or all of these requirements may be omitted if the information is included in a feasibility study. No additional guidance on what should be contained in a business plan is available. What follows is an outline of what a good business plan should contain.

### **I. Table of Contents**

### **II. Executive Summary**

#### **A. Introduction**

- \*short in length
- \*should not merely summarize the rest of the plan
- \*emphasize the main points
- \*include a chart that illustrates profits or return on investment in an interesting way

#### **B. Objectives**

- \*state business goals; should be concrete and measurable, not vague
- \*market share objectives
- \*sales objectives
- \*profit objectives

#### **C. Mission**

- \*state simply if the business has a mission
- \*if the business does not have a mission, this section should be dropped from the business plan

Business and financial goals are objectives; higher goals are missions.

### **III. Company**

#### **A. Company-Related Information**

- \*summarize company-related information

#### **B. Ownership**

- \*briefly explain what the company sells, through what channels, and to whom
- \*describe the company ownership, the type of entity it is, and, if a corporation, whether it is privately or publicly owned

#### **C. History**

- \*relay information about the company history; such as when, who, and for what purpose the business was founded

- \*include information regarding any moves to new locations, product line changes, or other substantial changes
- \*include information about sales, products, and markets serviced, as well as any changes to these items over time.

D. Product Lines

- \*brief description of products and services

E. Location and Facilities

- \*brief description of company offices and locations
- \*nature and function of offices and locations
- \*square footage
- \*lease arrangements
- \*other facilities information

**IV. Product**

A. Product Summary

- \*clear and concise summary that can be merged into the Executive Summary; what do the products do and for whom

B. Description

- \*list and describe the products, services, or both that the company sells
- \*describe how the products fill the market demand
- \*describe how the company supplies what the customers need

C. Important Product Features and Comparison

- \*describe the important competitive features of the products, services, or both
- \*answer what differentiates the product from its competition; better features, better price, better quality, better service, or other factors

D. Product Literature

- \*include copies of advertisements, brochures, direct mail pieces, catalogs, and technical specifications (these can be attachments to the back of the plan)

**V. Market Analysis**

A. Market Information Summary

- \*summarize market information
- \*highlight key elements, such as market size and growth-rate projections

B. Industry Analysis

- \*provide general information from standard sources regarding the industry

C. Keys to Success

- \*describe the certain factors are much more important than others; limit to no more than 4 factors

- D. Market Forecast  
\*prepare a market forecast spreadsheet on a targeted market segment broken down by product line

### Business Strategy and Implementation

- A. Overall Strategy  
\*explain the heart of the sales and marketing strategy  
\*identify the overall strategic thrust; new technology, new product, new product features, better marketing, lower price, better distribution, better service, or other (select one of these, not all)
- B. Marketing Strategy  
\*emphasize what makes the company special (specific market segment focus, special product distribution methods, new products that are solutions to existing problems, new ways to promote products or services)  
\*focus and emphasis are very important
- C. Sales Plan  
\*describe sales method (retail, wholesale, discount, mail order, or phone order)  
\*if a sales force is maintained, describe how the sales people are trained and compensated  
\*produce a sales forecast spreadsheet  
    -1st year quarterly forecast of sales and cost of sales  
    -5 year-forecast of sales and cost of sales  
    -divide sales forecast in logical divisions for product lines and products
- D. Service  
\*describe the proposed method of servicing the products sold

### Organization

- A. Organizational Summary  
\*summarize organizational information, such as the number of employees, members of the management team, and the number of company founders
- B. Organizational Structure  
\*prepare an organizational chart  
\*list the important positions and the responsibility of each
- C. Management Team  
\*list the most important members of the management team, including summaries of their backgrounds, experience, and functions within the company
- D. Management Team Gaps  
\*discuss any weaknesses and gaps in the management team



- E. Other Management Team Considerations  
\*applicability depends on the company; some issues that may be addressed include any managers or employees that have noncompete agreements with competitors, the identity and contributions of the board of directors, and the identity of major stockholders and their management roles

## VI. Financial Analysis

- A. Financial Highlights  
\*show the most important highlights; projected cash flow and net profit for the next 3-4 years, return on investment, and internal rate of return  
\*consider repeating the chart included with the Executive Summary and a Year 1 Profit Analysis chart
- B. Financial Plan  
\*along with pro forma projections, a financial plan or strategy should be prepared which summarizes the important points of the plan  
\*specify how the business is to be financed  
\*a chart of projected net worth may be appropriate
- C. Financial Assumptions  
\*briefly introduce the financial assumptions underlying the business plan  
\*include a Financial Assumptions table that addresses:  
-short-term interest rate - used to calculate interest on the balance of short-term notes on the balance sheets  
-long-term interest rate - used to calculate interest on the balance of long-term liabilities on the balance sheets  
-tax rate - used to calculate taxes in the profit-and-loss analysis in the pro forma income statement  
-personnel burden - used to calculate personnel costs, based on the percentage of base salary that must be added for payroll taxes, vacations, and benefits

### FINANCIAL ASSUMPTIONS

	2001	2002	2003	2004	2005
Short-term interest rate	0.00%	0.00%	0.00%	0.00%	0.00%
Long-term interest rate	0.00%	0.00%	0.00%	0.00%	0.00%
Tax rate	0.00%	0.00%	0.00%	0.00%	0.00%
Personnel burden	0.00%	0.00%	0.00%	0.00%	0.00%

- D. Start-up Costs and Capitalization  
\*this section is for start-up businesses only; if it is a new business, a table such as the samples shown should be included  
\*insert the tables showing start-up expenses, start-up assets, and start-up capitalization



## START-UP COSTS AND CAPITALIZATION

	List	Subtotals	Totals
<u>START-UP EXPENSES</u>			
General and administrative			
Legal and accounting	\$0		
Rental deposits	\$0		
Utility deposits	\$0		
Prepaid insurance	\$0		
Pre-opening salaries	\$0		
Other	\$0	\$0	
Sales and marketing			
Advertising	\$0		
Promotion	\$0		
Signage	\$0		
Logo design	\$0		
Printing	\$0		
Other	\$0		
Other	\$0	\$0	
Other expenses			
Other	\$0		
Other	\$0		
Other	\$0	\$0	\$0
Total Start-up Expenses	\$0	\$0	\$0

## START-UP COSTS AND CAPITALIZATION

	List	Subtotals	Totals
<u>START-UP ASSETS</u>	\$0		
Opening cash (min. balance)			
Inventory			
Category 1	\$0		
Category 2	\$0		
Category 3	\$0		
Other	\$0		
Other	\$0	\$0	
Capital equipment			
Furniture	\$0		
Equipment	\$0		
Fixtures	\$0		
Machinery	\$0		
Other	\$0		
Other	\$0	\$0	
Buildings/real estate			
Purchase	\$0		
Construction	\$0		
Remodeling expenses	\$0		
Other	\$0		
Other	\$0	\$0	
Leasehold improvements			
Item #1	\$0		
Item #2	\$0		
Item #3	\$0		
Other	\$0		
Other	\$0	\$0	
Other assets			
Other	\$0		
Other	\$0		
Other	\$0	\$0	\$0
Total Start-up Assets	\$0	\$0	\$0
Start-up requirements	\$0	\$0	\$0

## START-UP COSTS AND CAPITALIZATION

	List	Subtotals	Totals
<u>START-UP CAPITALIZATION</u>			
Owners' investment			
Owner 1	\$0		
Owner 2	\$0		
Owner 3	\$0		
Other	\$0		
Other	\$0		
Other	\$0	\$0	
Bank Loans			
Bank 1	\$0		
Bank 2	\$0		
Other	\$0		
Other	\$0	\$0	
Other Loans			
Other	\$0		
Other	\$0		
Other	\$0	\$0	\$0
Total Capitalization	\$0	\$0	\$0



E. Income Statement Projections

\*prepare projected income statements for 1 year and 5 years showing sales, gross margin, and operating expenses

\*examples follow

YEAR 1 PROJECTED INCOME STATEMENT

	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	19XX
Sales	\$0	\$0	\$0	\$0	\$0
Cost of sales					
Dollars	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0
Gross margin					
Dollars	\$0	\$0	\$0	\$0	\$0
Percent	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Expenses					
Advertising/Promotion	\$0	\$0	\$0	\$0	\$0
Wages and salaries	\$0	\$0	\$0	\$0	\$0
Leased equipment	\$0	\$0	\$0	\$0	\$0
Utilities	\$0	\$0	\$0	\$0	\$0
Insurance	\$0	\$0	\$0	\$0	\$0
Rent	\$0	\$0	\$0	\$0	\$0
Depreciation	\$0	\$0	\$0	\$0	\$0
Payroll taxes, etc.	\$0	\$0	\$0	\$0	\$0
Contract/consultants	\$0	\$0	\$0	\$0	\$0
Miscellaneous	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0
Percent of sales	0.00%	0.00%	0.00%	0.00%	0.00%
Pre-tax profit	\$0	\$0	\$0	\$0	\$0
Short-term interest	\$0	\$0	\$0	\$0	\$0
Long-term interest	\$0	\$0	\$0	\$0	\$0
Taxes incurred	\$0	\$0	\$0	\$0	\$0
Net profit	\$0	\$0	\$0	\$0	\$0
Net profit/Sales	0.00%	0.00%	0.00%	0.00%	0.00%

## 5-YEAR PROJECTED INCOME STATEMENTS

### SALES AND GROSS MARGIN

	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Sales					
Sales revenue	\$0	\$0	\$0	\$0	\$0
Cost of sales					
Cost of sales	\$0	\$0	\$0	\$0	\$0
Other sales costs	\$0	\$0	\$0	\$0	\$0
Total cost of sales	\$0	\$0	\$0	\$0	\$0
Gross Margin					
Margin	\$0	\$0	\$0	\$0	\$0
Percent	0.00%	0.00%	0.00%	0.00%	0.00%

### OPERATING EXPENSES

	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Expenses					
Advertising/Promotion	\$0	\$0	\$0	\$0	\$0
Wages and salaries	\$0	\$0	\$0	\$0	\$0
Leased equipment	\$0	\$0	\$0	\$0	\$0
Utilities	\$0	\$0	\$0	\$0	\$0
Insurance	\$0	\$0	\$0	\$0	\$0
Rent	\$0	\$0	\$0	\$0	\$0
Depreciation	\$0	\$0	\$0	\$0	\$0
Payroll taxes, etc	\$0	\$0	\$0	\$0	\$0
Contract/consultants	\$0	\$0	\$0	\$0	\$0
Miscellaneous	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0
Percent of sales	0.00%	0.00%	0.00%	0.00%	0.00%
Profit					
Operating profit	\$0	\$0	\$0	\$0	\$0
Short-term interest	\$0	\$0	\$0	\$0	\$0
Long-term interest	\$0	\$0	\$0	\$0	\$0
Taxes incurred	\$0	\$0	\$0	\$0	\$0
Net Profit	\$0	\$0	\$0	\$0	\$0
Net profit/sales	0.00%	0.00%	0.00%	0.00%	0.00%

F. Pro Forma Balance Sheets

\*a pro forma balance sheet at start-up (or issuance of the Loan Note Guarantee) and 5 year projected balance sheets

5-YEAR PRO FORMA BALANCE SHEET

	start-up	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
<b>ASSETS</b>						
Short-term assets						
Cash	\$0	\$0	\$0	\$0	\$0	\$0
Accounts receivable	\$0	\$0	\$0	\$0	\$0	\$0
Inventory	\$0	\$0	\$0	\$0	\$0	\$0
Other short-term assets	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0	\$0
Long-term assets						
Capital assets	\$0	\$0	\$0	\$0	\$0	\$0
Accumulated depreciation	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0	\$0
Total Assets	\$0	\$0	\$0	\$0	\$0	\$0
<b>DEBT AND EQUITY</b>						
Short-term liabilities						
Accounts payable	\$0	\$0	\$0	\$0	\$0	\$0
Short-term notes	\$0	\$0	\$0	\$0	\$0	\$0
Other short-term liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0	\$0
Long-term liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Total liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Equity						
Paid-in capital	\$0	\$0	\$0	\$0	\$0	\$0
Retained earnings	\$0	\$0	\$0	\$0	\$0	\$0
Earnings	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0	\$0
Total debt and equity	\$0	\$0	\$0	\$0	\$0	\$0



G. Break-Even Analysis

\*break-even point is that level of sales at which total revenue equals total costs.

Below the break-even point, the company is losing money. At the break-even point, the company has neither a profit or loss; its net income is zero. It also is unable to repay any current maturities of long-term debt. The break-even point is affected by three factors: fixed costs, variable costs, and selling price.

\*Fixed costs are those costs that remain constant and do not vary with changes in sales or production levels, such as property taxes, rent, insurance, salaries of office staff and executives, utilities, maintenance costs, and interest and principal payments.

\*Variable costs are costs that vary relative to sales or production levels, such as purchases of raw material or inventory, hourly employee wages, and sales commissions.

$$\text{*Break-even point sales} = \frac{\text{Fixed costs}}{1 - \text{variable cost percentage}}$$

$$\text{*Break-even point units} = \frac{\text{Fixed costs}}{\text{Sales price/unit} - \text{Variable cost/unit}}$$

\*a break-even analysis chart would be a good visual aid.

H. Supporting data

\*Census information about the location makes good supporting documentation. Census Profile #1 provides selected characteristics of the population. Census Profile #7 provides selected characteristics by income.

\*A map of the area highlighting areas of minority and low-income populations.

\*Census information listing population within a three mile radius by age.

\*Census information listing population within a three mile radius by race and gender.

\*Census information listing household income within a three mile radius.

\*Standard industrial classification (SIC) code information

-copy of the page from the SIC code manual for the industry

-financial information for the industry from Robert Morris Associates and/or Dun and Bradstreet, including ratios, average balance sheets and income statements

## The Mission Statement

The mission statement is a brief, focused statement that describes a business idea. The result of developing a mission statement helps you see whether the business idea supports the principals values.

**What will the principals do?**

---

---

---

---

---

**Who will the principal do it for?**

---

---

---

---

---

**Where will the principal do it?**

---

---

---

---

---

**Combine each of the above elements and put them together.**

---

---

---

---

---

---

## Competitor Profile

1. Who are the major competitors?
2. What are the major strengths of each?
3. What are the major weaknesses of each?
4. Where are they located?
5. How long have they been in business?
6. What are their business hours?
7. Who is their target market?
8. How heavy is their customer traffic?
9. What quality level are they offering?
10. What is their inventory level?
11. How many employees do they have?



12. How knowledgeable are their employees?
13. How many product lines do they have?
14. How are they pricing their products?
15. Who are there suppliers?
16. How do they promote their products?
17. Do the competitors have any plans for expansion?
18. Have any businesses of this type gone out of business recently?